



## **Board of Directors**

25 May 2021

**Report of the Board of Directors  
regarding the amendment of the  
Regulations of the Board of Directors**



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## **Amendment of the Regulations of the Board of Directors (Item 7.3 of the Agenda of the Board)**

Amendment of the Regulations of the Board of Directors to adapt them to Act 5/2021 of 12 April 2021, amending the Consolidated Text of the Spanish Companies Act, approved by Royal Legislative Decree 1/2010 of 2 July 2010, and other financial regulations, with respect to the promotion of long-term shareholder involvement in listed companies, and to the partial amendment of the Good Governance Code approved by the National Securities Market Commission on 26 June 2020, as well as to introduce certain technical and drafting clarifications

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### Explanatory report of the Appointments and Remuneration Committee on item 7.3 of the Agenda regarding the amendment of the Regulations of the Board of Directors

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#### 1. Purpose of report

The Appointments and Remuneration Committee of Red Eléctrica Corporación, S.A. (hereinafter, the "**Company**"), in a meeting held on 19 May 2021 has agreed to propose to the Board of Directors the modification of articles 5 ("General supervisory function"), 7 ("Qualitative composition"), 10 ("The lead independent director"), 15 ("Composition and functioning"), 16 ("Functions of the Audit Committee"), 17 ("Composition and functioning of the Appointments and Remuneration Committee"), 18 ("Functions of the Appointments and Remuneration Committee"), 18 BIS ("Composition and Functioning of the Sustainability Committee"), 18 TER ("Functions of the Sustainability Committee"), 19 ("Meetings of the Board of Directors"), 20 ("Conduct of meetings"), 22 ("Appointment of external directors"), 24 ("Removal of directors"), 26 ("Orientation and updating"), 27 ("Powers of information and inspection"), 28 ("Assistance of experts"), 29 ("Directors' remuneration"), 30 ("General duty of diligence"), 31 ("Duty of loyalty"), 32 ("Duty to avoid situations of conflict of interest"), 35 ("Directors' duty of disclosure"), 36 ("Regime on Related-Party Transactions"), 37 ("Principle of transparency"), 39 ("Relations with shareholders and corporate website"), 41 ("Relations with the markets"), 42 ("Relations with auditors"), 43 ("Annual Corporate Governance Report") and 44 ("Annual Report on Directors' Remuneration") of the Regulations of the Board of Directors.

This report is prepared by the Company's Appointments and Remuneration Committee in compliance with the provisions of Article 3 of the Regulations of the Board of Directors, which establishes that the same may be amended at the request, among others, of the Appointments and Remuneration Committee, which must accompany its proposal with a report justifying such amendment.

The power to amend the Regulations of the Board of Directors is vested in the Board itself and, in accordance with the provisions of Article 3 of the Regulations, the amendment shall require for its validity a resolution adopted by a two-thirds majority of the directors attending the meeting.



## 2. Explanation of the amendments to the Regulations of the Board of Directors

On 19 December 2018, Law 11/2018, of December 28, 2018, was published in the Official State Gazette, amending the Code of Commerce, the revised text of the Capital Companies Law approved by Royal Legislative Decree 1/2010, of July 2, and Law 22/2015, of July 20, 2015, on Auditing of Accounts, regarding non-financial information and diversity ("Law 11/2018") which, among other aspects, incorporates certain clarifications regarding diversity in the composition of the Board of Directors.

On the other hand, after submitting for public consultation between January 15 and February 14, 2020 the proposed reform of the 2015 Good Governance Code for listed companies, on June 26, 2020 the CNMV published the partial reform of the CNMV's Good Governance Code of June 2020 (the "Good Governance Code of Listed Companies" or "GBG"), which updates and adapts several Recommendations of the GBG to various legal amendments approved since its publication and clarifies the scope of others; It also includes relevant innovations in areas such as diversity on the Boards of Directors, non-financial information and risks, attention to sustainability aspects in environmental and social matters and corporate governance, and clarification of aspects relating to the remuneration of directors, among others.

In turn, on 12 October 2020, Circular 1/2020 of 6 October 2020, of the National Securities Market Commission (CNMV) was published in the Official State Gazette, amending the Annual Corporate Governance Report and Annual Report on Directors' Remuneration models, whose transitory provision establishes, in relation to the CBG Recommendations amended in June, the need for the formal adaptation of the corporate texts and/or policies affected.

Recently, the revised text of the Spanish Companies Act, approved by Royal Legislative Decree 1/2010, of 2 July 2010 ("Spanish Companies Act") has been amended by Law 5/2021, of April 12, 2021, which amends the revised text of the Spanish Companies Act and, among other matters, matters such as the identification of shareholders and the exercise of voting rights, capital increase and preferential subscription rights, the holding of Meetings exclusively by telematic means, the regime of related party transactions, the composition of the Board and the removal of directors, among others, have been modified.

In relation to this, the proposal to amend the Company's Bylaws will be submitted for approval at the Ordinary General Shareholders' Meeting of the Company in 2021, in order to incorporate the aforementioned reform of the Spanish Companies Act by Law 5/2021, of April 12, amending the amended text of the Capital Companies Act, which will in turn affect certain provisions of the Regulations of the Board of Directors. Therefore, and for the purpose of coordinating both corporate texts, it is considered advisable to modify the Regulations of the Board of Directors in those aspects that will be affected by the approval of the aforementioned amendments to the Bylaws.

Finally, advantage has been taken of this reform to incorporate certain technical clarifications in some articles of the Board Regulations.

Based on the foregoing, it is proposed to **amend the Regulations of the Board of Directors** of the Company for the purposes of:

- **adapt it to the amendment of the Spanish Companies Act by Law 5/2021, of April 12**, which amends the revised text of the Spanish Companies Act in matters relating fundamentally to the regime of related-party transactions, directors' remuneration, directors' duty of diligence and the content of the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration. Likewise, it is proposed to adapt Article 7.1 to the wording of Article 529 bis Spanish Companies Act, as amended by Law 11/2018;
- **adapt it to the Recommendations of the Corporate Governance Code as amended in June 2020**, with which the Company currently complies. These Recommendations mainly affect the corporate policies with which the Company must comply (policy of communication, contacts and involvement



with shareholders, institutional investors and voting advisors; policy of communication of economic-financial, non-financial and corporate information, for which the Board has approved the "Criteria for communication of economic-financial, non-financial and corporate information with shareholders, institutional investors, voting advisors and other stakeholders"; diversity policy of the Board of Directors and appointment of directors, group sustainability policy and risk control and management policy); to certain provisions related to the selection, removal and resignation of directors; to the composition of the Audit Committee; and to the competencies of the Audit, Appointments and Remuneration and Sustainability Committees. It is also proposed to complete the Regulations with other CBG Recommendations with which the Company currently complies;

- **and incorporate certain technical clarifications, in particular:** (i) the functions of the Board are completed with those provided for in letters a) and h) of Article 249 bis Spanish Companies Act; (ii) certain provisions reiterated in several articles of the Regulations are eliminated; (iii) a clarification is introduced regarding the maximum number of Boards of which proprietary directors may form part (Article 7.2); (iv) the wording of the last paragraph of section 2. c) of article 7 to clarify the difference between the continuity of the director in his position until the end of his term of office and the legal prohibition for him to continue to be classified as independent once twelve calendar years have elapsed as from the date of appointment as director; (v) the system for appointing the coordinating independent director is completed in the case of mandatory appointment of the same when the Chairman of the Board is an executive director, establishing that executive directors must abstain, in accordance with article 529 septies.2 of the Spanish Companies Act; (vi) the appointment regime for the coordinating independent director is completed in the case of mandatory appointment of the same when the Chairman of the Board is an executive director, establishing that executive directors must abstain, in accordance with article 529 septies.2 of the Spanish Companies Act; (vii) with regard to the composition of the Audit, Appointments and Remuneration and Sustainability Committees, it is expressly incorporated that the chairmen thereof shall be elected by the Committee in question, in accordance with the provisions of the Bylaws (articles 15.1, 17.1 and 18 BIS.1), and it is also provided that the term of appointment as members of the Committee and as chairman thereof shall be four years (instead of the current three years) in order to coordinate it with the four-year term of office of directors provided for in Article 20 of the Bylaws (articles 15.2, 17.2 and 18 BIS.2); (viii) references to the "category" of directors are unified, in accordance with the legal term set forth in article 529 duodecies Spanish Companies Act (articles 18.1, 20.4 and 35.1); (ix) the functions of the Sustainability Committee are completed in coordination with the provisions in this regard for the Audit and Appointments and Remuneration Committees; (x) in relation to the means of calling Board meetings, the reference to "letter, fax, telegram" is eliminated, maintaining e-mail and completing it with "any other means that allows accreditation of receipt" (article 19.5); (xi) the application of Article 22 (appointment of Board Members) is extended to all Board Members, regardless of their category; (xii) the provision that "the members of the Committees shall act when they do so in their capacity as Board Members" is eliminated from paragraph 3 of Article 24, since it is already expressly included in the articles relating to the composition of each of the Committees; (xiii) the provisions relating to the orientation program and the programs for updating directors' knowledge (article 26) are updated, unifying the term "orientation program" in the last paragraph of article 30; (xiv) with regard to the function of providing information to the directors, article 27 is completed with a reference to the Secretary of the Board in accordance with the provisions of the current article 30.2. g) of the Regulations, as well as in the functions attributed to this position in the Spanish Companies Act; (xv) the function ("to have and obtain the information necessary for the effective exercise of its functions") provided in letter g) of article 30.2 in relation to the duty of diligence of the directors is adapted to the wording of article 225.3 Spanish Companies Act; and (xvi) the reference to "relevant information" in article 41.1 is replaced by "other relevant information", in accordance with article 227 of the Securities Market Law.